

Consumer Goods Technology

Proactive On Price
By Tim Clark

Charging what the market will bear is becoming easier

Consumer goods companies have long embraced quantitative data analysis methods as a crucial component of their market research activities and for good reason. Using advanced statistical techniques to scrutinize information from focus groups, surveys and point-of-sale systems enables companies to improve key business drivers such as advertising mix effectiveness and consumer awareness of new products. However, the benefits of a quantitative approach to marketing extend far beyond advertising and brand awareness. Enterprise pricing applications, for instance, also enable CG firms to dramatically increase profitability.

Proactive Approach

Pricing software is a proactive approach to driving top-line growth by getting closer to a different version of truth: charging what the market will bear. According to report from the Yankee Group, titled "Price Management and Profit Optimization Solutions Are the Best-Kept Secrets in Enterprise Software," 2006 will be the year for price management and profit optimization (PMPO) solutions. The report highlights how market growth of PMPO solutions is expected to reach \$1 billion by 2007. A number of indicators signal the growing role that PMPO will play in top-level business strategies:

Pricing solutions are increasingly becoming enterprise-wide deployments, and often large-scale global roll outs.

Leading systems integrators and consulting firms, such as Accenture, Deloitte and IBM Global Services, are building practices to facilitate PMPO strategy, process reengineering and technology implementation projects. An increased number of educated and qualified RFPs signal a downstream pull for pricing solutions.

As C-level executives refocus on revenue and margin growth rather than cost cutting, price optimization looks to be the killer app to help get them there. Yankee Group found that enterprise investment in PMPO leads to 10 percent to 20 percent profit improvements at a rate unlike any other packaged software solutions on the market. In addition, enterprises experience an improved margin contribution and revenue uplift, as well as better managed market volatility and supply balance.

Taking Advantage of Price Change

The science behind pricing in industries such as travel and retail has traditionally applied demand elasticity models to recommend prices at the consumer level. Manufacturing-specific pricing applications from Zilliant take this notion a step further by allowing the food manufacturer to increase profits by accounting for the effects of price changes across distributors, wholesalers and retailers. A major food manufacturer is getting proactive on price by tapping into this solution.

The Zilliant Precision Pricing Suite (ZPPS) provides the food manufacturer with the ability to index customers and deals into peer groups. This comparison provides pricing analysts with true visibility into deal and customer profitability, and with the ability to better understand where dollars are being left on the table or where poor pricing practices are eroding margins.

Understanding Profit

ZPPS can also provide manufacturers with a comprehensive understanding of the profit implications of trade promotions. Marketing teams can preemptively eliminate margin leakage from overly-generous promotional activities. The sales team also benefits through new insight into data-driven deal recommendations directly at the point of negotiation, while empowering them to negotiate sales agreements more effectively.

Zilliant's applications are providing leading CG companies with a better understanding of total customer profitability, in part by examining pricing not only at the final point of purchase but also throughout the distribution chain. Retailers, like Supervalu, are also wise to the ways of price optimization applications, which has no doubt played a major role in the company's financial performance. The company recently reported a 5 percent increase in retail sales for the year ending December 31, 2005.

Mega-retailer Supervalu uses Acorn Systems' Profit Analyzer software to provide profitability analysis and improvement capabilities for its distribution operations. The solution enabled the 10th largest grocery retailer in the United States to analyze detailed route and warehouse costs that can be quickly and easily aggregated by store, distribution center or customer segment for executive level decision-making. With millions of different suppliers, products, customers and facilities, understanding the specific Net Profit impact of business decisions is a complex and crucial component to enabling management with the information they need to operate even more competitively in their markets.

Candis Johnson, manager of Distribution Analysis at Supervalu, says Acorn Systems' Profit Analyzer software went through a rigorous proof of

concept in which it was required to accurately duplicate a collection of results from the company's existing system. "Acorn Systems was the only provider that successfully got them all right," says Johnson.

"For companies such as Supervalu with high order volume, a large number of customers and products, Acorn Systems provides a great solution for multi-dimensional cost and profitability analysis," adds Scott Wallace, partner, Finance Transformation, Deloitte & Touche. As the CG industry invested heavily in enterprise information systems such as CRM and ERP, the data is already in place for leading manufacturers to add millions of dollars to the bottom line by using price segmentation and optimization applications to drive pricing decisions.